



Testimony



STATEMENT OF
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DEPARTMENT OF DEFENSE
BEFORE THE
COMMITTEE ON BUDGET
HOUSE OF REPRESENTATIVES
ON
DEFENSE MANAGEMENT CHALLENGES

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Mr. Chairman and Members of the Committee:

I appreciate the opportunity to be here today to discuss the management challenges faced by the Department of Defense (DoD) and the responsiveness of its managers and commanders to findings and advice provided by the Office of the Inspector General, DoD.

The Committee needs no reminder that the DoD is one of the largest and most complex organizations in the world. The Department is responsible for roughly \$1.3 trillion in assets; operates 638 major installations and thousands of small sites around the world; and currently has about 700,000 civilian employees and 2.4 military personnel in the active forces or the Ready and Standby Reserves. Thousands of programs and projects are needed for the Department to successfully execute operations across the spectrum from warfighting to peacekeeping as well as humanitarian and emergency relief operations. Critical functions include: research and development; procurement; logistics; intelligence; and a wide variety of other activities to train, equip and sustain the Armed Forces.

There has been widespread concern about waste and inefficiency in military programs throughout this nation's history. Although

it is doubtful that efforts to equip and support the Armed Forces are inherently more susceptible to fraud or mismanagement than other government activities, the size and complexity of the Department of Defense pose formidable management challenges and risks. The Department's own assessments of the need for reforms, oversight by the Congress, General Accounting Office reports, and the work of the DoD audit and investigative communities show that a wide range of problems currently merit attention and action. We welcome additional measures, such as the Committee's Wastebusters website, to help identify problems and risks. Tips that you refer to us from the Wastebusters website will supplement those received on our own DoD Hotline, which averages 14,000 calls annually.

A few weeks ago, you referred about three dozen e-mail tips received at the Wastebusters website to my office for review. We appreciate every new source of leads for possible audits and investigations. I assure you that we are taking the Wastebusters tips seriously and will keep the Committee fully informed on the disposition of each one. For example, because three Wastebusters tips concerned the new DoD Standard Procurement System (SPS), we have initiated an audit of SPS implementation at Air Force sites.

Another welcome recent congressional initiative was the joint letter in September 1999 from the House Majority Leader, the Chairmen of the House Government Reform Committee, Senate Budget Committee and Senate Governmental Affairs Committee, and you, Mr. Chairman, on DoD management challenges. Specifically, you requested we update our previous assessments of the most serious management problems facing the DoD; identify related reports; summarize significant audit recommendations that address major problem areas; comment on progress made in implementing audit recommendations and correcting management problems; and identify programs that have had questionable success in achieving results. Although we have worked to include much information of that kind in our semiannual reports, we appreciated the additional opportunity to discuss the results of our oversight efforts.

Our December 15, 1999 reply to the joint inquiry discussed groups of often interrelated problems which we sorted into ten principal management challenges, as follows:

- (1) Information Technology Management
- (2) Information Technology Security
- (3) Other Security Concerns
- (4) Financial Management

- (5) Acquisition
- (6) Health Care
- (7) Supply Inventory Management
- (8) Other Infrastructure Issues
- (9) Readiness
- (10) Turbulence from Change

DoD Management Responsiveness

Before discussing each area, I would like to address the overall question of DoD responsiveness to the need for reform and the specific issue of how well managers respond to Inspector General, DoD, advice.

Starting in the late 1980's and continuing through the 1990's into the present day, the DoD has been attempting to restructure virtually all of its internal processes. The Congress has been closely involved in dozens of specific initiatives, particularly in the area of acquisition reform. Our overall assessment is that the DoD has seldom, if ever, been so committed to across the board management improvement. However, even after several years of concerted effort, progress has been mixed and much more needs to be done to cut costs and improve effectiveness.

To identify specific problems and monitor improvement efforts, the Department performs a huge number of self-assessments, including thousands of internal audits and inspections annually. Those assessments include about 250 audit and evaluation reports with about 1,000 recommendations each year from the Office of the Inspector General, DoD.

To respond to the problems identified by audits, management reform studies and other reviews, the DOD is carrying out many hundred major management improvement initiatives simultaneously. Cumulatively, and with continuous management emphasis, those initiatives should dramatically improve the efficiency of DoD support operations over the next several years. We also believe that, on an overall basis, the Department is being very responsive to audit advice as it develops and carries out these management improvements. For example, managers agreed to take responsive action on 97 percent of the 2,040 audit recommendations made by this office during fiscal years 1998 and 1999. We do not have comparable information from earlier periods, but senior auditors in my office believe that this compliance rate is far higher than was the case during the earlier years of the OIG, DoD. We do not expect to win every battle and it would be unreasonable to expect agreement with every audit recommendation, nor is it realistic to expect timely

implementation of every agreed-upon recommendation. The majority of agreed-upon actions are carried out within reasonable timeframes, but significant exceptions do occur. Nevertheless, we believe that the very high level of acceptance of our recommendations and reasonably good follow-up record speak well for both the auditors' performance and the receptiveness of managers to the audit advice they receive.

The main concern with the effectiveness of auditing in DoD relates not to management inaction on audit advice, but to the inadequate audit coverage of many high risk areas because of resource constraints and conflicting priorities. I will elaborate on that concern later when I discuss the top management challenges.

Information Technology Management

Information technology is transforming both military science and business practices. The DoD operates about 10,000 mission critical or essential networks and is rapidly expanding its use of web-based technology for electronic commerce and other "paperless" functions. The annual budget for information system development, procurement, operation and maintenance is about \$16 billion, but even that large figure does not fully portray

the paramount importance of information systems to virtually every facet of managing the Armed Forces and their support establishment.

The DoD badly needs to complete its implementation of the Clinger/Cohen Act. Appropriately, there has been increased congressional interest recently in turning around the long-standing problem of inadequate management control over information technology investments, standards and practices. The Defense Appropriations Act for Fiscal Year 2000 levied stringent new requirements on the Department to ensure a complete break with overly decentralized and often inefficient practices for reviewing, approving, monitoring and funding automated system acquisition projects. Better management is needed to avoid costly acquisition failures of the 1990's like the Army Ground Based Common Sensor System and Defense Commissary Information System.

Currently, less than 10 of the Department's hundreds of "IT" acquisition projects are being audited annually. Now that the massive Y2K audit effort is behind us, it is vitally important to provide more oversight in this area.

We are currently working with senior DoD managers to develop a more active audit effort, resources permitting, to support and fine tune the Department's management control processes for IT system acquisition. Successful implementation of effective management oversight processes will help avoid recurrence of most information system problems currently evident in the DoD. Those problems include: too many systems; block obsolescence; insufficient interoperability; security vulnerabilities; inconsistent budgeting and reporting; noncompliance with policies on data standardization, documentation and configuration management; user dissatisfaction; frequent system acquisition schedule slippage and cost overruns; and disconnects between evolving business practices and their supporting system projects.

In addition to improving management of system acquisition, the Department needs to modernize and cut support costs for communications and other information technology infrastructure. The Y2K conversion has forced the acceleration of efforts to replace and modernize various equipment, including DoD telecommunications switches throughout the world, and the increased awareness of the Department's dependence on information technology should focus more attention on related infrastructure issues.

Overcrowding of the radio frequency spectrum throughout the world presents a particularly difficult challenge to military planners and users of weapon and communication systems. We reported in October 1998 that at least 89 weapons and telecommunications systems had been deployed overseas without the proper frequency certification and host nation approval. In addition, the Military Exchange stores were selling products not covered by, or compliant with, host nation frequency agreements. As a result, communications equipment deployed without host nation approval and frequency assignments cannot be used to its full capability for training, exercises or operations or without risking damage to host nation relations. Potential frequency spectrum conflicts should be considered during system design, when host nation agreements are negotiated and before systems are deployed. The DoD also needs a more systematic process to update telecommunications agreements with other countries, clarification of accountability for managing those agreements and more emphasis on compliance with them. The most recent register of telecommunications agreements was over 4 years old, at the time of the audit.

Information Technology Security

The heavy dependence of the public and private sectors on computer technology for processing sensitive information, controlling infrastructure ranging from air traffic control systems to power grids, and supporting modern communications makes information warfare an attractive strategy for hostile regimes and groups. Hackers view accessing or vandalizing Government information systems virtually as a sport, and there is a significant threat that criminals will exploit information system security weaknesses to steal data or funds. The Defense Information Systems Agency states that over 18,000 cyber attacks against DoD were detected in FY 1999, a three fold increase over the previous year. While this increase is partially attributable to more effective detection, there is probably more activity in this arena.

The DoD internal audit community, GAO and other reviewers have outlined DoD information assurance challenges in numerous reports. To meet those challenges, the Department needs to adapt lessons learned from the Year 2000 conversion effort; consolidate and update policy guidance; establish better management control over the many separate efforts now under way or planned; develop reasonable program performance measures;

ensure full attention to information assurance concerns in new system development and electronic commerce initiatives; intensify on-site information security inspection and audit efforts; and improve training across the board for technical personnel, security officers and system users. The DoD is turning increased attention to these matters, but a sustained effort will be needed on a continuous basis for the foreseeable future. The DoD audit and investigative communities are working cooperatively with DoD management to provide support in this vital area. These include the establishment of the Defense Information Infrastructure Intrusions Investigative Team (DI4T) by the Defense Criminal Investigative Service to provide immediate criminal investigative response to suspected computer intrusions against the DoD Information Infrastructure (DII). The DI4T is an integral part of the law enforcement-counterintelligence cell of the DoD Joint Task Force-Computer Network Defense (JTF-CND) that provides for the coordination and overall situational awareness of all law enforcement and counterintelligence activities within the DoD conducted in support of the computer network defense and the DII. The DCIS and DoD are also represented and maintain an active role in the operation of the National Infrastructure Protection Center (NIPC) at the Federal Bureau of Investigation.

Other Security Concerns

In addition to the challenge of protecting access to information systems, the DoD received new indications that its procedures for minimizing security risks from within its own workforce and contractor personnel also needed improvement. In October 1999, the GAO reported severe problems at the Defense Security Service (DSS), which handles DoD personnel security investigations. The GAO faulted the timeliness and quality of DSS investigations and highlighted a backlog of several hundred thousand cases. The DoD agreed with all GAO recommendations and had already replaced the Director, DSS. We are following up on the agreed-upon recommendations and attending periodic DSS management reviews to monitor the status of corrective actions. We also are participating in a DoD study of alternatives for reducing the backlog of clearance investigations and we are completing audit work on several related issues. We plan a series of four reports over the next several weeks.

The United States Government controls the export of certain goods and technologies by requiring export licenses for specific dual-use commodities or munitions. In the wake of the Cox Commission Report and other disclosures, congressional and media attention has focused on the dangers to national security posed

by an export licensing process that is often alleged to favor commerce over national security. Meanwhile, Defense industry and friendly countries are critical of the current slow and unpredictable license review procedures.

The Government needs an export licensing and technology transfer program that protects critical military capabilities through timely and reasonable reviews but also supports Defense cooperation with allies and friends. In an effort to strengthen security and export controls and to accelerate the review process, the Deputy Secretary of Defense approved an Arms Transfer/Technology Transfer White Paper on September 30, 1999, which kicked off an effort to reengineer the DoD process for reviewing license applications. However, the DoD cannot unilaterally revamp the multiagency license review process and attaining interagency consensus in this area is very difficult.

Additional challenges facing DoD in this arena include determining personnel requirements and addressing the marginal adequacy of the Foreign Disclosure and Technical Information System (FORDTIS), the principal automated tool for DoD export control analysts. The DoD also has no overall capability for analyzing the cumulative effect of exports and other technology acquisitions upon other countries' military capabilities, even

though this information is critical to evaluating risks inherent in proposed exports. Commenting on an IG, DoD, draft report, the Department generally agreed with our recommendations for process improvements; however, the new DoD review of the entire process may result in some of our recommendations being overtaken by events. Currently, we are concentrating on meeting the multi-agency audit requirements mandated by the Congress in the National Defense Authorization Act for Fiscal Year 2000. This year, our review is focused on controls in DoD laboratories and other facilities over information released to foreign visitors. We will submit our report in March.

Financial Management

The DoD continues to be unable to prepare financial statements that can withstand the rigors of audit for most individual major funds and the overall Department. For FY 1998, as in previous years, only the Military Retirement Trust Fund received a favorable audit opinion. It is unlikely that the audit results on the financial statements for FY 1999 will be significantly different when we issue our reports in late February. The DoD financial statements for FY 1998 were less timely than ever and a record \$1.7 trillion of unsupported adjustments were identified by auditors. This startling figure reflects the

continued lack of integrated, double-entry, transaction-driven, general ledger accounting systems. The laborious workaround procedures still needed to compile the financial statements are simply inadequate.

The inadequacy of current systems continues to be the major impediment to achieving favorable audit opinions and producing reliable financial reporting. Major changes are necessary to ensure that over 200 complex accounting and feeder systems can produce auditable data. For this reason, DoD does not expect a significant improvement in the overall results of financial statement audits for several more years, although individual segments of the Department are beginning to show progress.

The DoD made a credible attempt to meet several congressional reporting requirements with the first Biennial Financial Management Improvement Plan, September 1998. In April 1999, we reported our assessment of the Plan. Its primary weakness was a lack of information on the status of efforts to achieve compliant systems. This lack of specific data indicates insufficient overall DoD management control over the financial systems remediation process. The Department agreed with our recommendation to adopt lessons learned from the Year 2000 conversion regarding a central management plan, standardized

reporting for every system and periodic senior management review. However, implementation of that concept has been disappointingly slow. Nor does the Department appear to be making a concerted effort to comply with the congressional requirement for a wall-to-wall property inventory this year, which is needed to enable accurate financial reporting regarding DoD property.

Audits also continue to indicate problems related to cash management and rate setting in the DoD working capital funds, inaccurate or untimely recording of obligations and disbursements in accounting records, and inability to eliminate unmatched disbursements. In addition, internal controls in disbursing offices need improvement to reduce vulnerability to fraud. As of September 30, 1999, the Defense Criminal Investigative Service had 85 open financial fraud cases. We have worked closely with the Defense Finance and Accounting Service to improve their fraud control program, but contractor payment processes remain vulnerable to fraud and error. Last year, contractors voluntarily refunded \$97 million of over payments. No one can tell how many inaccurate or fraudulent payments were made, but not detected.

Acquisition

In fiscal year 1999, the DoD purchased about \$135 billion in goods and services, using more than 250,000 contracts, grants, cooperative agreements and other transactions. Because of its huge scale and impact on US military capability, the DoD acquisition program has always been controversial. There have been nearly continuous reform efforts over the past 20 years to reduce costs and acquisition lead time or to address the myriad of other issues present in this area.

Resource constraints, numerous mandates and requests for internal audits in other management areas, and the long-standing comparative reluctance of DoD acquisition officials to request audits have severely curtailed internal audit coverage over the last few years. This is particularly true for the several hundred ongoing weapon system acquisition programs. Although the largest of those programs are frequently audited by the General Accounting Office, very few of the small and medium size programs are receiving audit coverage. Available resources are insufficient to support a systematic program of comprehensive internal auditing based on risk analysis. Similarly, the 39 percent reduction of the Defense Contract

Audit Agency between 1990 and 1999 has limited contract audit coverage.

Although recent audit coverage on many acquisition programs, issues and initiatives has been limited, we have been actively involved in numerous DoD acquisition reform process action teams and task forces. We have commented extensively on proposed acquisition legislation and regulatory changes. We have also performed indepth audits of some acquisition issues of particular interest to the Department and Congress. Those issues include spare parts pricing, defense industry consolidation, and the use of multiple award task order contracts.

The IG, DoD, supported the acquisition reform laws passed during the 1990's. Further refinements to those laws and others governing DoD acquisition practices should be welcomed and fully considered. However, we urge that the primary focus for the near term be on fully implementing and assessing the impact of the recently enacted changes, as opposed to proposing more changes just to maintain a sense of momentum.

Determining the impact of the enacted legislative and regulatory changes and of numerous ongoing acquisition initiatives is often

hampered by slow implementation actions, insufficient experience to date using the new practices, uncertainty on whether implementation was complete or properly done, a lack of specified performance metrics and the absence of independent validation of reported results.

Audits continue to indicate problems in the Department's attempts to comply with reform legislation, specifically in the area of adopting commercial buying practices and establishing equitable business relationships with contractors for spare parts. When genuine competition exists, market forces drive prices down. However, when competition is limited or non-existent, there are no equivalent market forces and in sole-source purchasing the Department frequently pays exorbitant prices.

Our audit coverage over the past two years has been concentrated in the historically high risk area of aviation spares, but the same problems likely pervade other commodity areas. The DoD has been slow in providing adequate guidance and training to contracting officers. There continues to be too much emphasis on weakening the Truth in Negotiations Act, the primary safeguard of the Government's interest when competition is lacking. On the other hand, the Department is attempting to

establish more reasonable, long term arrangements with several key suppliers and useful models may result from those efforts. We will issue additional reports on this matter over the next few months.

Throughout the 1990's, most acquisition reform emphasis was on systems and hardware procurement. The DoD has realized that purchasing services, such as management consulting, information system maintenance, testing support and environmental cleanup, deserves equal emphasis. We believe that, in many ways, contracting for services is intrinsically harder than for systems or equipment, yet training for contracting personnel in this area is deficient. The DoD spent over \$50 billion for services in 1999, so it is important that controls be adequate and decision making be sound.

We are gratified by the quick response of the Congress, Office of Federal Procurement Policy and DoD to our report that multiple award task order contracts were being misused to avoid competition. We will issue a comprehensive report on services contracts in a few weeks. Likewise, we are assessing the impact of downsizing on the DoD acquisition work force and will issue a report in the near future.

Health Care

The Military Health System (MHS) costs nearly \$16 billion annually and serves approximately 8.2 million eligible beneficiaries through its health care delivery program, TRICARE. TRICARE provides health care through a combination of direct care at Military Department hospitals and clinics and purchased care through managed care support contracts. The MHS has dual missions to support wartime deployments (readiness) and provide health care during peacetime.

The MHS faces three major challenges: cost containment, transitioning to managed care, and data integrity. These challenges are complicated by the inadequate information systems available to support the MHS.

Cost containment within the MHS is challenged by the continued lack of good cost information combined with significant levels of health care fraud. Lack of comprehensive patient-level cost data has complicated decisions regarding whether to purchase health care or to provide the care at the military treatment facility.

To combat health care fraud, the Defense Criminal Investigative Service has developed an active partnership with the TRICARE Management Activity to give high priority to health care fraud cases, which comprise a growing portion of the overall investigative workload. As of September 30, 1999, we had 531 open criminal cases in this area. The following examples of recently closed cases show the kinds of improper activity being encountered.

- Genentech, Incorporated, of San Francisco, California, was sentenced to pay the Government a total of \$50 million to resolve issues related to the introduction of misbranded drugs in interstate commerce. Genentech admitted that, between 1985 and 1994, it aggressively marketed the synthetic hormone Protropin, one of its most lucrative prescription drugs, for various medical conditions for which the drug had not received Food and Drug Administration (FDA) approval. During this time period, the FDA had approved the drug only for use against a rare growth disorder found in a small percentage of children.

- As a result of an investigation in connection with a Qui tam suit, a \$7,742,564 settlement was reached between the Government and the Chapter 11 trustee for the National

Recovery Institute Group (NRIG). The suit alleged that NRIG, a drug and alcohol abuse clinic, billed TRICARE, Medicare and Medicaid for services not rendered in accordance with program requirements and for services that were not medically necessary.

- Investigation of a Qui Tam complaint resulted in a \$51 million civil settlement by Kimberly Home Healthcare, Incorporated, of Miami, Florida (Kimberly), a subsidiary of Olsten Health management Corporation. Kimberly pled guilty in U.S. District Courts in Atlanta, Miami and Tampa to assisting the Columbia Healthcare Corporation in the preparation and filing of false cost reports with the Government for home health care. In addition to the civil settlement mentioned above, the corporation was sentenced to pay fines totaling \$10,080,000.
- A \$4,149,555 settlement agreement was reached between the Government and Nova Southeastern University, Incorporated (Nova), Fort Lauderdale, Florida. The settlement was a result of an investigation into allegations that Nova billed TRICARE, Medicare and Medicaid for psychological services purportedly provided by licensed therapists or

physicians when, in fact, the services at issue were provided by unlicensed student interns.

These are but a few examples of problems that pervade the health care industry and represent a growing challenge for the DoD.

Data integrity in management information systems has been a persistent problem affecting health care program effectiveness and efficiency. Incomplete and inaccurate data has made the DoD unable to clearly identify health care costs, identify unit and individual readiness for deployment, or coordinate direct health care with purchased health care. DoD management is now putting considerable emphasis on better data quality and significant progress is being made.

Transitioning to managed care is a critical element of peacetime health care delivery. The issue is complicated by a lack of understanding about TRICARE, multiple TRICARE programs offering similar but not identical benefits, and increased focus on providing peacetime health care to the growing retiree population. An audit of the TRICARE marketing program showed that while beneficiary understanding of TRICARE is improving, DoD has provided Service members with incomplete, incorrect, and inconsistent information. In addition, the combination of base

and hospital closures and military downsizing, with a growing and aging population of retired beneficiaries (those eligible for Medicare but not DoD-purchased health care) more eligible veterans and their families are finding themselves without access to direct care resources. Attempts to address that problem have led to a proliferation of health care demonstration programs that have further confused the eligible population.

Supply Inventory Management

Although DoD has substantially downsized its force structure, it has not reduced operations and support costs commensurately. However, the Department is pursuing over 300 logistics reform initiatives, many of which involve supply inventory management. The DoD intends to consolidate management of inventory functions and reduce warehousing requirements; reengineer DoD product support activities; adopt best business practices that include world-class standards of logistics performance; implement electronic commerce; and improve response times for delivering goods and services to customers by expanding the use of prime vendors, virtual prime vendors, and direct vendor delivery. Determining appropriate requirements for materiel to be managed and stocked, identifying and canceling purchases of excess materiel, eliminating unnecessary items from inventory and

distributing items more efficiently are areas that need improvement. In addition, spare parts shortages impacting readiness are being reported by operational units and repair depots, total asset visibility initiatives remain insufficient and inappropriate disposal practices continue to be a problem for the Department. Accordingly, supply inventory management remains a high risk area.

The Department has reduced wholesale supply stocks by almost one half over the last 10 years, from about \$107 billion in 1989 to a current estimate of \$55 billion. Nevertheless, an FY 1999 GAO report states that about 60 percent of the total on-hand secondary inventory in FY 1997 exceeded DoD requirements. The DoD disagrees with the GAO figure, but it is clear that further improvement is needed in inventory management. The gradual transition from just-in-case to just-in-time supply support practices is reducing logistics costs, but operating units and repair depots are raising concerns about spare parts shortages. All of the Services are reporting shortages, but the problem is most acute for Air Force aircraft, as reflected in mission capable rates that have declined to 73 percent. The DoD needs to do a better job of forecasting requirements, making smart procurement decisions to achieve economical order quantities, executing spare part budgets, reducing repair cycle times and

implementing information systems that are crucial to effective and efficient inventory management.

The Department has vulnerabilities in preventing public access to live ammunition, explosives, and other dangerous residue cleared from military ranges. An IG, DoD, evaluation of the munitions disposal process led to multiple recommendations to the Department in September 1997 to tighten controls and improve procedures for clearing ranges and disposing of munitions.

Although conditions at the ranges and in the disposal process warranted immediate attention, and the Secretary of Defense designated the handling of unexploded ordnance a material management control weakness in January 1999, the cognizant DoD level offices were still determining responsibility for issuing guidance in September 1999. Fortunately, ongoing follow-up indicates that many installations and commands are taking corrective action despite the continued lack of DoD guidance.

Although the wave of property disposal caused by force structure and inventory reductions in the early to mid-1990's has abated, somewhat, the DoD still has a high volume of widely dispersed disposal operations which continue to pose significant challenges. The Department's ongoing efforts to improve asset visibility and requirements determination should help minimize

the instances of needed items being sent to disposal, but more effective demilitarization practices are needed. The Department has implemented some audit recommendations in this area, but is lagging behind on others. For example, in April 1997 we reported that no effective process existed for determining which of the hundreds of thousands of Government-owned property items and other materiel in contractor plants were munitions list items requiring demilitarization screening and special disposal instructions. Regulatory changes to address that problem are still incomplete.

This area also remains vulnerable to criminal schemes, as indicated by the 57 open Defense Criminal Investigative Service cases involving disposal activities as of September 30, 1999.

Other Infrastructure Issues

In addition to adopting more modern and efficient supply processes, the DoD needs to improve a wide variety of other support activities to cut costs. These include maintenance, transportation and facilities functions. For purposes of this discussion, the facilities area includes base structure, military construction, real property operations and maintenance, and environmental cleanup. The common challenge in these areas

is how to cut costs to reduce the current imbalance between DoD administrative and other support costs on the one hand, and modernization and operations requirements on the other.

Disagreements between the DoD and Congress about depot maintenance outsourcing remain a problem, but the Department has moved forward on numerous public/private partnering arrangements that are promising. The Services are also attempting to streamline maintenance operations at other levels and the weapon system acquisition process is now geared toward expanded contractor life cycle support, which should be more economical. The Department has additional opportunities for management improvement and efficiencies by consolidating requirements for maintenance and repair contracts, implementing better performance measures, restructuring and modernizing management information systems, better accounting for depot maintenance workloads, and collecting more reliable cost information.

Although worldwide transportation costs have dropped during the 1990's, DoD costs have not shown proportionate decreases. Numerous initiatives are under way to address that problem. These include implementing a commercial, off the shelf, on-line, freight management and payment system (Powertrack) to replace the enormously inefficient, paper intensive, transportation

vendor pay practices that currently create serious vulnerability to fraud. The DoD pays \$650 million a year to freight forwarders and shippers. In the controversial area of household goods shipments, which cost an additional \$1.2 billion annually, three pilot reform programs are ongoing. We are auditing the Powertrack system effort and some aspects of the household goods pilot programs, at the request of DoD managers.

The DoD is still burdened with the cost of operating more bases than are needed to support the force structure; however, the Congress did not grant the DoD requests in the last two budgets for additional base realignment and closure authority. It is still likely that an agreement will be reached on more closures at some future date. In addition to eliminating underutilized installations, the DoD needs to keep working to avoid unnecessary facilities investments and stretch available construction dollars as far as possible. The DoD is also faced with heavy costs resulting from hazardous waste products from the maintenance, repair and disposal of many current weapon systems, as well as ground and water cleanup at active, closing and closed bases. The Department is putting considerable emphasis on cost containment in this area, but more needs to be done. As in other areas, the environmental management effort is also challenged by fraud.

Readiness

The difficulty of maintaining sufficient military readiness at constrained budget levels has been the subject of congressional hearings and public dialogue for the past several years. In addition to financial problems, the readiness posture is affected by the changing threat environment, which now includes bona fide information warfare threats and concerns about weapons of mass destruction in the hands of terrorists. However, increased operating tempo (OPTEMPO) has probably had the most significant impact on readiness, affecting mission-capable rates, personnel retention, spare parts availability, unit training, and operations and maintenance costs.

Since the end of the Cold War, the frequency of U.S. military involvement in operations other than war has increased, while force structure and military end-strength have been reduced. This OPTEMPO has adversely affected the combat capability of deployed units in Bosnia and Southwest Asia as well as some units that remain at home station, as they have to pick up the work of the deployed units while simultaneously supporting them with personnel, equipment and spare parts. Aircraft participating in deployments are being flown more hours than is

the case during regular training missions. It is estimated that some wings are putting about 2 years worth of flying hours on aircraft in about 6 months during their Southwest Asia deployments. This accumulation of flying hours, combined with the age of some aircraft, has revealed atypical and unbudgeted wear and maintenance problems particularly on the F-15C and the A-10 aircraft. The pace of these deployments is also, at least in part, causing aircraft mission-capable rates to decline and the increased consumption of parts has exacerbated existing parts shortages, causing cannibalization rates to increase. The logistics problems affecting many units, especially in the Air Force, were discussed previously under Supply Inventory Management.

Training is a key factor in readiness. The Air Force in particular indicates that aircrew combat proficiency may be declining partly due to frequent and recurring deployments. F-15 and F-16 fighter squadron personnel, particularly those participating in Operation Southern Watch in Southwest Asia, frequently described their mostly routine missions as having little combat training value. For the Army, especially at battalion, brigade, and division levels, current peacekeeping operations detract from the Army's established training cycle to sustain highly trained and combat-ready teams. While in

Bosnia, armored and mechanized infantry units generally do not conduct any armored maneuver operations and are relieved from tank and Bradley gunnery requirements. The inability to conduct needed training threatens skills which are extremely perishable. Returning units to their wartime mission capability levels during peacetime is also a problem, taking from several weeks for some support units to more than a year for some combat units. In addition, entire units are not always deployed. As a result of deploying partial units, the nondeployed portions lack the officers and senior noncommissioned officers needed to train more junior soldiers, cannot conduct training above the small unit and individual soldier level, and have to do not only their work but that of the deployed portion of the unit.

Accurate reporting of unit level readiness also remains a concern. The Global Status of Resources and Training System (GSORTS) indicates that the readiness of units engaged in these deployments in all of the Services has been adversely affected. These effects are particularly evident in the Army with lower unit level readiness ratings, although division level ratings have recently received much publicity. However, important information about a unit's condition is not always readily apparent in GSORTS and sometimes not reported at all. Actual unit conditions are masked by factors such as the counting of

temporarily assigned personnel against wartime manning requirements, optimistically estimating training status, and inconsistent reporting.

Other readiness indicators, such as reported backlogs of equipment and real property for maintenance and repair, are notoriously unreliable. There is extensive activity under way to address those problems; however, audit and inspection coverage of these and other readiness issues has been very limited over the past couple years, partially due to the need to monitor Y2K conversion status.

Turbulence from Change

There are high stakes involved in the DoD efforts to implement fundamental reform throughout the Department and, in all cases there is a need to push ahead vigorously and expeditiously. In fact, in most areas even more should be done. Nevertheless, it must be recognized that the nature, scope, and duration of the DoD reform effort create a number of significant management challenges in their own right. Those "change management challenges" include:

- maintaining high workforce morale and productivity;

- continuously retraining the workforce to ensure they have adequate command of constantly changing rules and processes;
- harmonizing the thousands of changes and initiatives so that they do not conflict with each other;
- measuring the results of each initiative and getting objective feedback to validate reported performance; and
- maintaining appropriate emphasis on internal controls and accountability.

These issues are particularly hard to deal with because they tend to cut across organizational and functional lines. We believe that much more needs to be done to focus on workforce hiring, training and retention, because even the best new procedure or process will fail without a well motivated, properly trained and adequately supported workforce. Our pending report on the DoD acquisition corps reductions will highlight the problems that result from cutting the workforce in half while workload remains relatively constant. We will also

discuss the "greying" of the acquisition workforce and the very high attrition rates projected over the next few years. High turnover compounds the training problem. These kinds of issues undoubtedly apply to other sectors of the DoD workforce as well.

The problem of conflicting goals and inconsistent emphasis may be inevitable when so many initiatives are ongoing simultaneously. The DoD has realized that virtually all aspects of its operations involve multiple organizations and disciplines, so that unilateral attempts by individual managers to redesign processes are doomed to failure. The growth in the 1990's of problem solving initiatives with a more integrated, cross-cutting approach is one of the most positive trends that we have seen in the Department. However, more needs to be done. For example, the finance and acquisition communities appear to be moving in opposite directions on contractor pay. The finance community is attempting to improve controls over payments by taking measures like rejecting vouchers with remittance addresses that are not in the Central Contractor Registry and may be suspect. Some payments could be delayed, but vulnerability to fraud and error would be reduced. However, some DoD acquisition officials believe that payments to contractors are not being made promptly enough, and they advocate making payment without any attempt to match invoices to

receiving documents. The Department generally resolves inconsistent guidance, but in the meantime the workforce cannot help but be somewhat unclear about DoD priorities.

Finally, we believe strongly that proper oversight is particularly useful and necessary during times of major changes. Identifying impediments to implementing new laws and policies, suggesting ways to fine tune initiatives to make them more effective, and providing objective feedback on whether intended results are being achieved are the kinds of valuable support that auditors can furnish. Perhaps the best recent example of such support was our massive audit effort to help the DoD implement its Y2K conversion plan. The Department has been very generous in its positive comments on the important contribution that we were able to make to the DoD success in overcoming the difficult Y2K challenge.

Unfortunately, the resources allocated to the OIG, DoD, are not sufficient to enable comprehensive oversight in many areas. Between 1995 and 1999, funded IG, DoD, work-years were reduced by 26 percent, while mandated and requested workload simultaneously increased. The Department scaled back further major cuts that had been planned for FY 2000 through 2004, but it was very disappointing when the Congress cut our FY 2000

appropriation request. The combination of that reduction and the continuing need for full scale audit support of Y2K conversion has hampered our efforts to increase oversight coverage of the high risk areas that I have discussed in this statement. Most of the individual DoD process changes and new systems have not been audited and the results are either unknown or unverified.

Summary

In summary, the DoD faces a wide array of formidable problems, many of which will require years of sustained effort to solve. We believe that the DoD audit and investigative communities play a vital role in identifying those problems, helping to fix them and verifying results. On the whole, DoD managers recognize and appreciate that role and we consider our working relationships with all major DoD components to be good.

This concludes my statement.